



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

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May 13, 2005

RE: In the Matter of the Deferred Balances Audit of Public Service Electric & Gas Company
Phase II: August 2002 – July 2003
Docket Nos. EX02060363 and EA02060366

To the Service List:

The Board, at its May 5, 2005 Agenda meeting, acknowledged receipt of the Public Service Electric & Gas Company deferred balances Phase II audit report ("Report") and authorized its release to the public for comments. The report is available on the Board's website at www.bpu.state.nj.us. Hard copies are also available upon request by contacting the Board's Division of Audits at (973) 648-4450.

Interested parties are invited to submit comments on all issues, including, but not limited to, the Market Transitions Charge ("MTC") issue mentioned on page I-6 of the Report. Initial comments are due June 13, 2005. Reply comments are due by June 28, 2005. Comments and reply comments are to be sent to all parties on the attached service list. Thereafter, the matter will be returned to the Board's agenda for further action. Please note that the issue of the appropriate treatment of the Investment Tax Credits associated with the divested generating units will be addressed as part of another proceeding.

The Board is asking the parties to respond to the following questions on PSE&G's determination of the MTC over-recovery. Your answers should be fully responsive, with detailed explanation and supporting documentation.

- 1 How was the net present value of the MTC over-recovery due ratepayers determined by PSE&G and was it consistent with the determination of the net present value of the MTC recovery due PSEG Power? Please explain in detail, and provide supporting documentation.
2. How should the ratepayer MTC over-recovery have been booked during each year of the transition period, i.e., as an allocated portion of the estimated net present value of the over-recovery as of August 1, 1999, as determined and booked by PSE&G, or as the estimated over-recovery occurring in each year of the transition period, in that year's dollars?

3. Should interest have been booked on the ratepayer MTC over-recovery occurring in each year of the transition period, and if so, what is the appropriate rate? If not, why not.
4. In determining the net present value of the MTC recovery, should the discount rate have been applied monthly or annually? Please explain in detail with supporting documentation.
5. Is it appropriate to adjust the determination of the MTC recovery to reflect the fact that under IRS rulings and court decisions, monies properly belonging to ratepayers, such as fuel cost overrecoveries, are not taxable? See United States Tax Court decision, in Florida Progress Corporation and Subsidiaries v. Commissioner of Internal Revenue, No. 2961-97, June 30, 2000; affirmed Florida Progress Corp. and Subsidiaries, v. C.I.R., 348 F.3d 954 (11th Cir.Oct.21, 2003) (No.02-14910,02-14911). Please explain in detail, with supporting documentation.
6. Are there other MTC quantification issues the Board should consider? Please list them and provide the reasons why the Board should consider them, with appropriate rationales and documentation.

Sincerely,



Carmen Diaz
Acting Secretary of the Board

KI:DS

**I/M/O THE DEFERRED BALANCES AUDIT OF PSE&G COMPANY
PHASE II – AUGUST 2002 – JULY 2003
BPU DOCKET NOS. EX02060363 AND EA02060366**

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